DEENA

ENERGY INC.

1994 ANNUAL REPORT

CORPORATE PROFILE

Deena Energy Inc. is an emerging junior oil and gas company with operations in Western Canada. The Company is exploration focused and has an excellent core of prospects for future activity. Deena trades on the Alberta Stock Exchange under the symbol DNG.

ANNUAL MEETING

The Annual General Meeting of Shareholders of Deena Energy Inc. will be held on Friday, May 19 at 9:00 A.M. in the Black Gold Room D at the Sandman Hotel, 888 - 7th Avenue S.W., Calgary, Alberta.

1994 HIGHLIGHTS

	1994	1993 (9 months)
Year End Production	**385 Boe/d**	180 Boe/d
Revenue	**1,156,030**	708,004
Cash Flow	**385,166**	216,631
CFPS	**0.03**	0.02
Earnings	**84,754**	145,176
EPS	**0.01**	0.02
Capital Expenditures	**3,470,234**	1,056,741
Common Shares	**12,573,066**	11,576,813

LETTER TO THE SHAREHOLDERS

I am pleased to report that overall, 1994 was a successful year for Deena as the Company achieved its goals and objectives. By year end, the Company had:

1. Established 4 core areas with delineation/development drilling potential.
2. Selectively increased land by 3722 net acres (150%) for a total of 6144 net undeveloped acres.
3. Increased year end production by over 110% to 385 Boe/d.
4. Consolidated outstanding common shares on a 4:1 basis.

DEENA STRATEGY

1994 proved to be an especially difficult year for emerging junior oil and gas companies. Strong equity markets, low interest rates, and excellent commodity prices created an overcapitalized situation which caused the usually highly competitive oil and gas industry in Western Canada to become "superheated". The business in 1994 was characterized by extremes with extraordinarily high acquisition and undeveloped land costs, record drilling activity levels, and highly inflated service costs.

With this environment in mind, Deena has formulated a strategy and set objectives to effectively invest shareholders capital to profitably build the Company. The strategy and objectives were developed considering both the short term (1 to 3 years) and long term (over 5 years) recognizing that the oil and gas business is highly volatile and dynamic, and a company must be flexible in its business plan. The highlights of the strategy and objectives are summarized as follows:

1. Build a stable cash flow base which in future will translate into internally generated growth opportunities from active prospect generation and exploration. The objective for 1994 was to increase production to a level which would generate annualized cash flow of $1.5 million to $2.0 million.
2. Concentrate on exploration and drilling activity as the most effective means of creating value for shareholders. Production acquisitions at this stage of the business cycle, while posting impressive volume, reserve and cash flow gains are essentially value neutral. In most cases, successful bidders are paying for upside, or in reality, paying for the privilege of assuming risk. However, the Company will consider opportunities which make sense both strategically and financially.
3. Maximize exposure to opportunities while minimizing risk by keeping drilling costs below $200,000 per net well and working interests between 25% and 50%. Deena does not necessarily have to operate but will deal with partners in whom management has confidence.
4. Only participate in projects which provide multi-well potential or available land and where new production can be brought on stream relatively quickly and will be operated at reasonable cost. Deena's objective for 1994 was to participate in projects such that 4 or 5 core areas could be established which could be exploited over the next 2 to 5 years.
5. Participate only in highly selective land sales with identifiable drilling locations consistent with the above parameters. At this point in its development, Deena is reluctant to establish a large undeveloped land base, preferring to put its capital into potential cash flow generating assets through drilling. Deena will drill its existing undeveloped land holdings within 2 years.
6. Balance activity between oil and gas while remaining flexible so as to pursue the most attractive projects.

7. Limit capital expenditures to operating cash flow levels, while recognizing that certain opportunities may necessitate the use of additional capital. Establish a line of credit with the Company's bank. Where the Company utilizes bank debt, restrict debt to one year's cash flow.
8. Implement financial controls and systems to allow more efficient operation and growth.
9. Consolidate the outstanding shares of the Company to a more appropriate level for its size.
10. Increase market awareness of the Company.

Over the longer term as cash flow builds, Deena will develop a substantially stronger operating presence, internally generate the majority of its exploration and exploitation projects, and take larger working interests in these plays. The overall objective of the Company's principals is to substantially increase the value of Deena's shares through good business and sound management.

1994 REVIEW

In following this strategy, Deena spent $3.5 million on exploration and development activities in 1994 with over 80% directed towards exploration. The Company participated in 14 exploratory wells and 3 development wells in 12 different areas resulting in 6 oil wells, 3 gas wells and 8 dry holes. This success has created 4 core areas for Deena which will provide ample drilling and exploitation opportunities into the medium term. Production at the end of the year was 385 Boe/d of which 70% was gas. Deena acquired additional undeveloped lands in its core areas with a total of 6144 net acres.

Financially, earnings were positive for 1994 with cash flow from operations of about $385,000, a 77% increase over 1993. This is less than originally forecast due to substantial volumes of production shut-in over much of April to August, moderately lower than forecast oil prices early in the year, deteriorating gas prices in the latter part of the year and high startup costs for its new discoveries. Lifting costs were reasonable at $4.25/Boe, while G&A costs were higher due to increased activity levels and management drawing salaries for the first time. The Company ended the year with over $440,000 in working capital and no bank debt. During the year, Deena established with its banker a line of credit of $750,000.

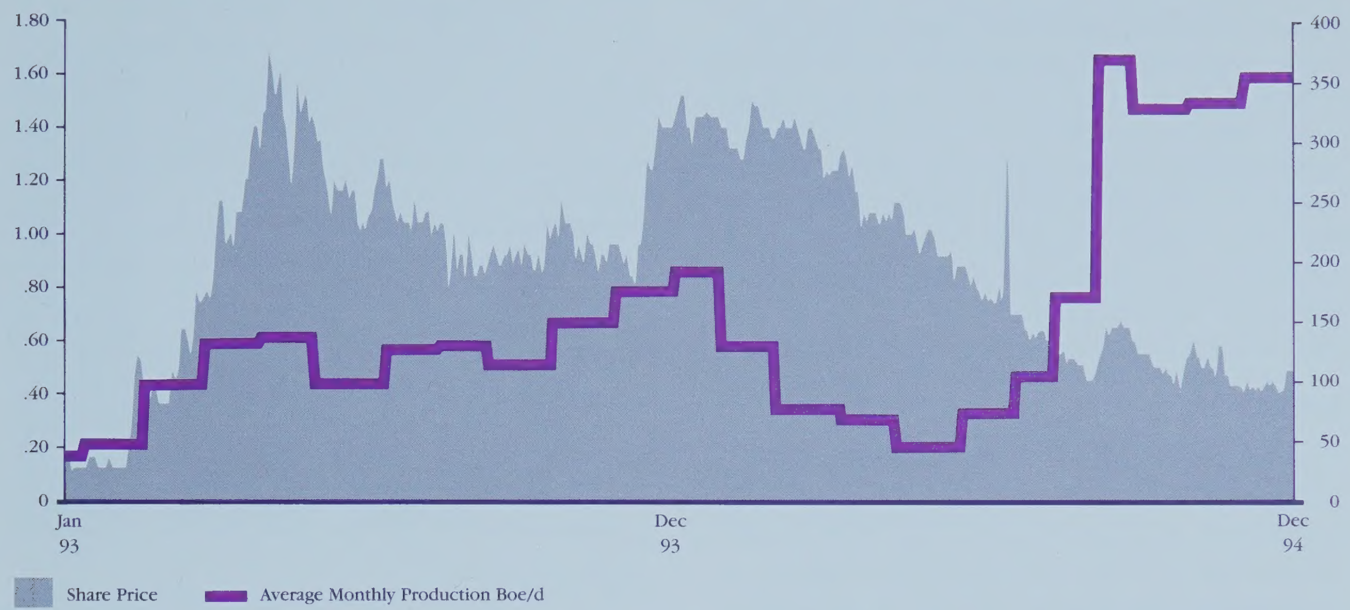
On June 30, Deena consolidated its common shares on a 4:1 basis, such that the number of basic outstanding common shares was reduced from 50.3 million to 12.6 million. The reason for this was to bring the Company's shares more into line with its peers and to enhance its ability to attract future equity financing. However, after consolidation, a company runs the risk of share price erosion in a weak market, and Deena's share price has been impacted. However, management believes that, with the Company's prospects, the long term benefits outweigh the short term pain for shareholders.

Deena made a number of presentations to various brokerages and sent out a substantial amount of information to prospective investors over the course of 1994. However, as the accompanying graph indicates, there has been little correlation between the Company's success (as indicated by production growth) and share price. Management will continue to take initiatives to inform the market of its successes and growth on a timely basis to improve this correlation for 1995.

1995 OUTLOOK

For participants in the oil and gas business, 1995 will be an extremely challenging year for reasons much different than 1994 and 1993. The dramatic drop in gas prices to levels far below the expectations of most experts will severely impact the cash flows of all gas producing companies. The poorer performance forecast for the industry in 1995 has had an extremely negative effect on markets and the ability of oil and gas companies to raise capital through

SHARE PRICES VERSUS PRODUCTION



equity. Increasing interest rates have substantially increased the costs of bank financing in 1995, making the use of debt a costly alternative. We believe that poor equity markets, high interest rates, and volatile commodity prices, for both gas and oil will continue in 1995 and into 1996.

On the positive side, we see land and service costs decreasing, acquisition opportunities increasing, and transaction costs becoming more reasonable. However, we see the quality of these opportunities inferior to those of two to three years ago. Survival in the current environment for oil and gas companies (regardless of the preferred goals of steady profitable growth and true value creation) will require sound management, strong technical and financial skills as well as tenaciousness and creativity. Deena's management believes it has the attributes necessary to survive and succeed in 1995 and in the future.

For 1995, Deena expects to spend a minimum of $1.4 million participating in roughly 15 wells. While this is significantly below 1994 spending, this activity has the potential to more than double production in each of Deena's core areas. In 1994, Deena expended considerable funds on setup costs in its core areas on land, seismic, and facilities. As a result, Deena has reduced its drilling risk and can tie-in quickly at low cost any new production arising from the 1995 program. While there are no guarantees for success when drilling, Deena is confident in increasing production to between 600 and 700 Boe/d by year end.

Deena's activities will be focused on creating value for the Company and its shareholders. A long term view is necessary in light of the high volatility of the oil and gas business and the high risks involved.

J. W. (Grant) Robertson
President

LAND

Deena ended the year with 6144 net acres of undeveloped land in Alberta (56%), Saskatchewan (33%) and B.C. (11%), with the bulk in its core areas. This represents an increase of 150% over 1993 holdings. The Company is adverse to building a large undeveloped land inventory at its current stage of development, preferring to acquire lands which have predetermined drilling prospects. Deena acquires land with the intent of drilling it within two years of acquisition.

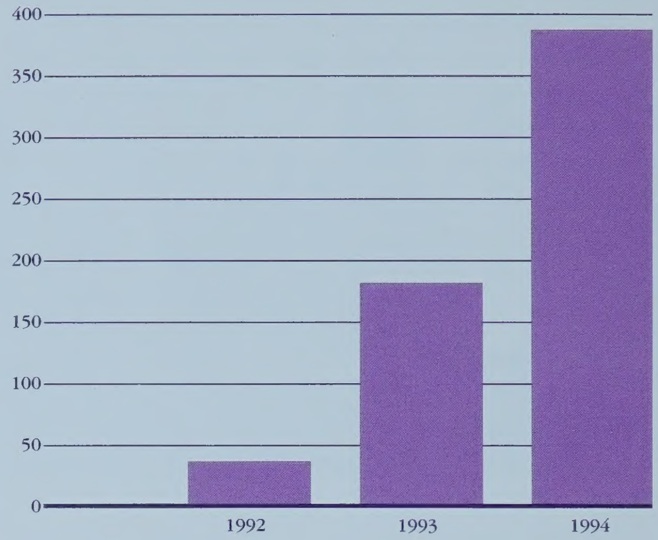
DRILLING

Deena participated in 17 gross wells in 1994 (5.6 net) of which 14 were exploratory in 12 different areas in Alberta, Saskatchewan and B.C. versus 4 wells (1 net) in 1993. Of these wells, 6 (1.1 net) were completed as oil wells, 3 (0.9 net) completed as gas wells, 7 (2.6 net) were dry and abandoned and 1 was cased as a water disposal well. The Company plans to participate in drilling over 15 wells (3 net) in 1995, about two-thirds of which will be focused on oil targets.

PRODUCTION

Production increased to 385 Boe/d at the end of 1994 versus 180 Boe/d at the end of 1993, an increase of over 110%. Production increases were actually higher as one of the Company's more significant producing wells paid out and reverted to a lower working interest early in the year. Gas comprised about 70% of year end

EQUIVALENT OIL PRODUCTION
End of Year Production, Boe/d



Gas converted at 10:1

production. Major producing properties were Edson (40%), Haynes (16%), Alderson (19%) and Oxbow (12%). Deena sold about 25 Boe/d of mature oil production late in 1994. With a successful drilling program, the Company hopes to more than double production in each of its key operating areas by the end of 1995.

EXPLORATION AND DEVELOPMENT PROJECTS

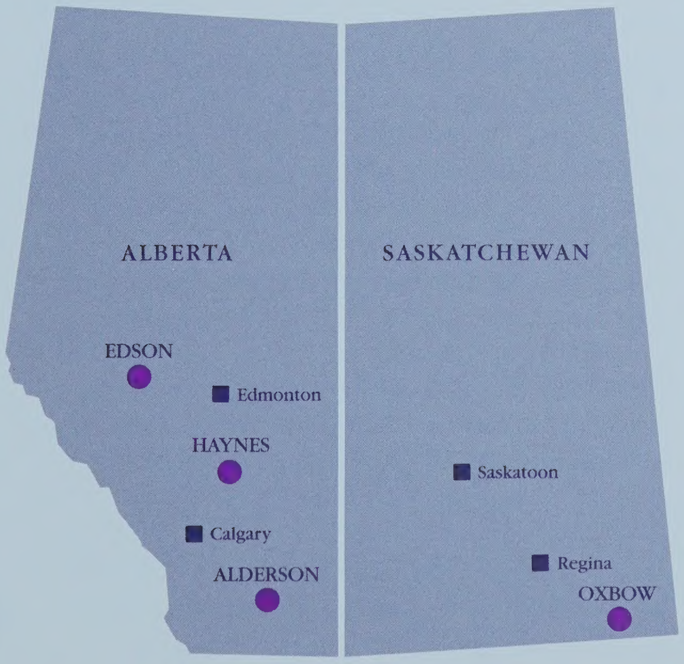
Deena is concentrating on exploration as its primary vehicle for growth. While potentially a higher risk and slower growth approach, a disciplined program can yield superior returns over time relative to corporate or property acquisitions. The exploration cycle for the areas in which Deena is focused is approximately two to three years.

In 1993, Deena began its initial exploration program. Activity was focused on prospect generation coupled with land and seismic acquisition. Projects were internally generated, jointly developed or brought to Deena by virtue

of strong relationships with certain partners. In 1994, Deena drilled up a number of these exploration prospects with activity balanced between oil and gas. These projects for the most part were of moderate risk and provided multi-well potential at reasonable exploitation costs. Where successful, the Company ran additional seismic, attempted to acquire additional lands and interests, and installed production facilities.

For 1995, Deena will focus on exploiting its 1994 exploration successes, the last phase in the exploration program formulated in 1993 and early 1994. A significant benefit of a well thought out and successful exploration program is the leverage generated from development drilling. For the most part, development drilling is characterized by dramatically lower risk and costs, with significantly higher incremental rates of return. The impact of this leverage is illustrated by Deena's 1995 capital program which at $1.4 million, roughly a third of 1994 spending, has the potential to more than double current production. The Company believes it will add significant value in 1995 as a result of this program.

DEENA CORE AREAS



Deena's 1995 activity will concentrate on the 4 core areas arising from the Company's exploration program:

Edson, Alberta

A wildcat exploration well was drilled in late 1993 and was tested in February 1994. As a consequence of this discovery, Deena (25%) and its partners were active in securing a dominant position in the play over the balance of the year. During 1994, the Company and partners drilled a well to delineate the prospect (which was dry), built a 12 kilometre gathering line to tie-in the discovery well, acquired additional crown acreage (total of 9 sections), and ran an extensive 3D seismic program.

In 1995, the Company and partners will process the seismic to confirm drilling locations, drill and tie-in one to three wells, and work on acquiring additional acreage in the area. This project violates Deena's basic strategy in that it is high risk and very expensive and, in reality, much more suited to a larger company. However, based on potential rewards and Deena's technical interpretation of the project, the risks have been viewed as acceptable in that if successful, the Company will dramatically increase reserves and production.

Oxbow, Saskatchewan

Deena (16.25% - 25%) and partners drilled a discovery oil well in April of 1994 after acquiring acreage and seismic during 1993. Subsequent to this discovery, the partners have accumulated 11 sections of land and drilled three additional oil wells. The wells currently produce at below their deliverability at allowables set between 60 and 75 B/d of light sweet crude. Deena has extensive seismic control over the play and has the potential for significant development drilling on its acreage. Currently, a central battery and

gathering system are being installed. Deena may drill up to 10 wells over the course of 1995 and will acquire additional acreage to extend the play.

Haynes, Alberta

Deena (10%) and its partners drilled an additional well (dry), unsuccessfully recompleted an existing producer, constructed a processing facility, and successfully negotiated increased allowables on production in 1994. At present, the partners are involved in negotiating a number of deals to acquire additional acreage and wells to extend the play. Deena and partners have extensive seismic over the area and have identified a number of drilling locations. The play, while difficult, offers significant potential as existing wells produce 200 to 300 B/d of light oil. If current negotiations are successful, Deena expects to be drilling at least two wells at Haynes in 1995.

Alderson, Alberta

Deena has interests in six sections in this area. In early 1994, Deena participated with partners in an extensive 3D seismic program. Processing identified 10 to 15 high quality oil and gas drilling locations, in various formations on Deena acreage, which was confirmed by the drilling of two successful wells in 1994. Deena acquired additional interests in the area and was instrumental in having processing facilities installed to permit more efficient operation. In 1995, Deena expects to participate in 4 to 7 wells at interests averaging 25%.

In order to be successful, an exploration program must have specific goals and objectives while at the same time be fluid and dynamic in order to be responsive to new ideas and concepts.

Deena is continually generating exploration ideas and projects with both short and long term objectives in mind. In 1995 Deena will be (is) formulating its next major exploration cycle. The intent of this program will be to take the Company the next step, to a more critical mass of production (over 1000 Boe/d) and cash flow ($3 million per year). The Company expects to accumulate acreage and working interests in the third quarter of 1995 for early 1996 drilling. Fulfillment of 1995 development drilling expectations will result in Deena assuming larger working interests in these prospects and some operatorship. Focus areas will be on specific targets currently identified in central Alberta and southeast Saskatchewan with stronger emphasis on the latter. Both oil and gas targets are under consideration as the Company takes a longer term view of gas pricing, but will allocate its funds according to near term cash flow potential in the event of success.

MERGERS AND ACQUISITIONS

Deena was active in evaluating merger and acquisition opportunities in 1994. The Company submitted a number of bids and proposals during the course of the year, and had success in acquiring some additional interests in its core areas.

The Company has a highly disciplined approach to its bidding process, and each opportunity must fulfill certain criteria such as strategic fit and potential upside with reasonable risk before being considered. The Company prefers to internally identify acquisition and merger candidates, rather than participate in widely distributed offerings, as it is a more optimum use of time and resources. Deena currently has certain offers outstanding which are receiving serious consideration and, if consummated, will provide substantial growth for the Company.

MARKETING

An unusually mild winter caused gas prices to fall dramatically in November and December and may, as a number of experts suggest,

continue on through 1995 and perhaps into 1996. Both Alberta and New York Mercantile Exchange (Nymex) spot prices have been the most significantly impacted, though up to 80% of longer term gas contracts are affected due to their linkage with Nymex based pricing.

Currently, two-thirds of Deena's gas production is taken in kind and receives spot pricing while one-third is locked in at about $1.35/MMBtu. Deena recognized, in mid-1994, that spot gas prices could come under pressure late in the year. However, management believes that at the Company's current size, the commodity price risks are offset by the risks of committing to longer term direct sales contracts.

Taking gas production in kind gives Deena more control over its revenues and cash flow. However, because the Company's gas production is concentrated for the most part in three non-operated properties, substantial basis risk exists on any direct sales contracts. If contractual direct sales volumes are not satisfied, Deena cannot easily backstop any shortfalls with alternative proprietary gas production. This exposes the Company to potentially crippling penalties such as supplying third party gas volumes or paying demand charges for unutilized transportation.

While the current gas price environment is difficult, Deena is taking a proactive approach in investigating various marketing alternatives. The Company is in the process of developing strategic alliances with certain producers and marketers to allow the Company to reduce its current exposure to the spot market and reduce its risk profile.

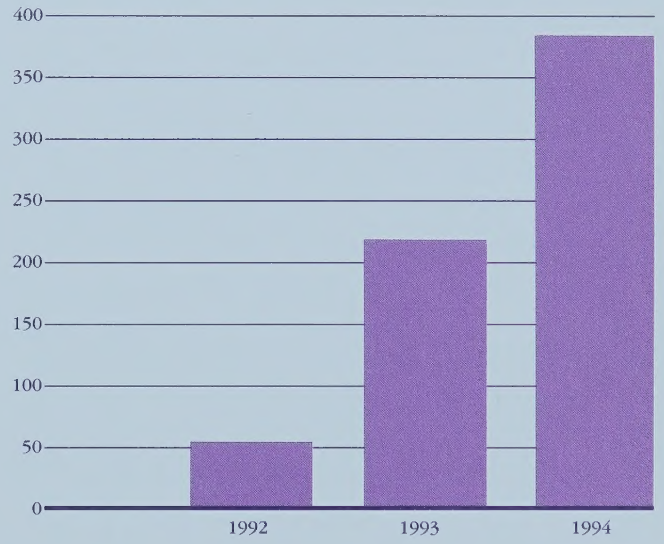
FINANCIAL

The year was successful for Deena from a financial perspective. Revenues were a record $1.2 million for 1994 generated from average production of 192 Boe/d (70% gas), a 70% increase over 1993, with average product prices of $18.05/B for oil and $1.88/Mcf for gas.

Operating costs were impacted on a unit basis by: higher lifting costs associated with the startup of a number of new producing wells and fields, higher G&A as the officers of the Company began to take salaries in 1994, utilization of more consultants in its expanded operations, and one time startup costs incurred in initiating a number of new systems.

Earnings were positive for the year at $84,754 while cash flow increased 77% to $385,166. Earnings and cash flow numbers, while somewhat less than forecast, were satisfactory considering the production problems, high production startup costs, and the sharp drop in gas prices experienced by the Company during the year.

REPORTED CASH FLOW
Thousands of Dollars



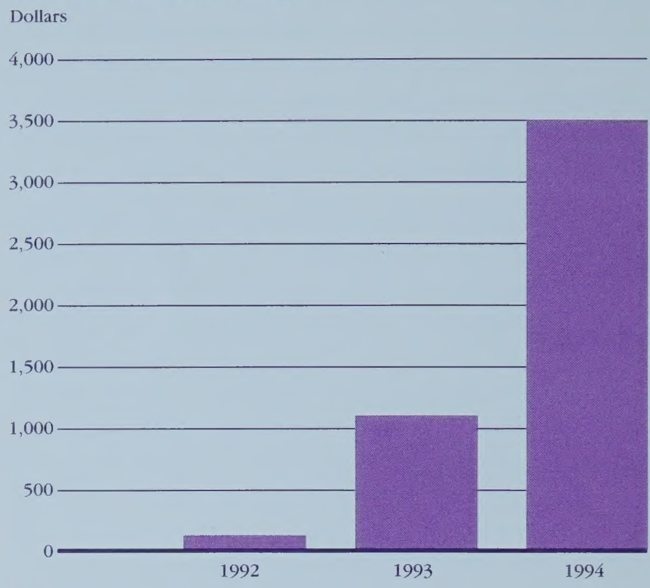
Capital spending was $3.5 million for 1994 as the Company aggressively pursued its exploration program, with approximately 80% spent on exploration activities. Capital spending was financed through equity and cash flow, and included a net $895,000 equity issue in February.

Deena consolidated its shares on a 4:1 basis on June 30, resulting in outstanding basic common shares of 12.6 million versus 50.3 million. The Company took this step to be more in line with its peers in industry. With the capital intensive nature of the business, and the Company's long term objective of growth, a prudent capital structure will require additional equity at some point in the future. As a result, Deena believes that this equity will be raised more effectively with fewer shares outstanding.

Discounting any success from the 1995 drilling program, earnings and cash flow will increase in 1995. This growth will be the result of stable production volumes and lower operating costs. Deena and its partners have corrected many of the operational problems affecting production in 1994. A significant portion of the operating costs in 1994, both lifting and on the G&A side, were of a one time nature and will not be incurred in 1995. In addition, Deena and its partners are taking steps towards higher efficiency in operations, which should translate to lower costs.

Deena's capital program is budgeted at a minimum $1.4 million, with additional spending depending on certain developments. This budget has been pared back moderately due to the sharp drop in gas prices in late 1994 which could reduce originally forecast cash flows by 40%. The capital program will be funded through a combination of cash flow and debt.

CAPITAL EXPENDITURES



In 1994, Deena established a line of credit with its banker of $750,000. While ending the year with working capital of over $400,000 and no debt, the Company is not adverse to using bank financing to facilitate its development drilling program. With uncertainty in commodity prices and interest rates, the Company will keep total debt levels to below 1 year cash flow. The Company is considering other financing mechanisms if successful in its acquisition/merger activities, including a rights offering to shareholders.

AUDITORS' REPORT

To the Shareholders
Deena Energy Inc.

We have audited the consolidated balance sheet of Deena Energy Inc. (formerly Deena Explorations Limited) as at December 31, 1994 and 1993 and the consolidated statements of income, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1994 and 1993 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

McRae Gladstone Gillies

Chartered Accountants

Calgary, Alberta
March 3, 1995

CONSOLIDATED BALANCE SHEET

As at December 31, 1994 and 1993

	1994	1993
		(restated note 9)
ASSETS		
Current		
Cash	$ 322,374	$2,391,333
Receivables	350,645	313,422
Notes receivable, non-interest bearing	3,300	13,200
Marketable securities (notes 3 and 5)	80,329	43,687
	756,648	2,761,642
Fixed (notes 3 and 6)	3,975,643	1,387,932
	$4,732,291	$4,149,574
LIABILITIES		
Current		
Accounts payable	$ 313,284	$ 119,014
Deferred abandonment costs	6,023	592
Deferred income taxes	160,900	180,000
	480,207	299,606
SHAREHOLDERS' EQUITY		
Share capital (note 7)	3,929,965	3,612,603
Retained earnings	322,119	237,365
	4,252,084	3,849,968
	$4,732,291	$4,149,574

Approved on behalf of the Board:

Director

Director

CONSOLIDATED STATEMENT OF INCOME

For the Year Ended December 31, 1994
For the Nine Months Ended December 31, 1993

	1994	1993
		(restated note 9)
Revenue		
Oil and gas	$1,082,929	$676,700
Other	73,101	31,304
	1,156,030	708,004
Expenses		
Operating	624,878	332,646
Royalties and lease payments	145,986	158,727
Depreciation and depletion	298,714	47,585
	1,069,578	538,958
Income before the undernoted	86,452	169,046
Gain on disposal and (write-down) of marketable securities	(20,798)	63,130
Income before income taxes	65,654	232,176
Recovery of (provision for) income taxes (note 8)	19,100	(87,000)
Net income for the year	$ 84,754	$145,176

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

As at December 31, 1994 and 1993

	1994	1993
		(restated note 9)
Retained earnings, beginning of year	$237,365	$ 92,189
Net income for the year	84,754	145,176
Retained earnings, end of year	$322,119	$237,365

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended December 31, 1994
For the Nine Months Ended December 31, 1993

	1994	1993 (restated note 9)
Operating activities		
Net income for the year	$ 84,754	$ 145,176
Non-cash items		
Depreciation and depletion	298,714	47,585
Deferred income taxes	(19,100)	87,000
(Gain on disposal) and write-down of marketable securities	20,798	(63,130)
Funds from operations	385,166	216,631
Changes in non-cash working capital items	166,947	(211,626)
	552,113	5,005
Financing activities		
Issue of share capital, net	906,602	3,345,592
Investing activities		
Purchase of fixed assets	(3,470,234)	(1,056,741)
Proceeds on disposal of marketable securities	—	93,321
Purchase of marketable securities	(57,440)	—
	(3,527,674)	(963,420)
Increase (decrease) in cash	(2,068,959)	2,387,177
Cash, beginning of year	2,391,333	4,156
Cash, end of year	$ 322,374	$ 2,391,333

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 1994 and 1993

1. NATURE OF BUSINESS

The Company is incorporated in Alberta and is primarily engaged in oil and gas exploration and production in Alberta.

During the year, the Company changed its name from Deena Explorations Limited.

2. BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Altarich Energy Corp.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are as follows:

a) *Marketable Securities*

Marketable securities are stated at the lower of cost and net realizable value. The marketable securities are recorded at net realizable value when there is considered to be a permanent impairment in their value.

b) *Fixed Assets*

i) *Oil and Gas Properties*

The Company follows the full cost method of accounting whereby all costs of exploring for and development of oil and gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenditures, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells and overhead expenses related to exploration activities. All recoveries of costs through sale of petroleum and natural gas properties, drilling incentive credits and petroleum incentive payments are credited against the cost of oil and gas properties. Gains or losses are only recognized when the Company disposes of a significant portion of its reserves.

Costs are amortized using the unit of production method based upon proven developed reserves derived from reports prepared by independent consultants and the Company.

Oil and natural gas reserves are converted into equivalent units based upon estimated relative energy content.

In applying the "full cost" method, the Company calculates a "cost centre ceiling" which restricts the capitalized costs less accumulated depletion and depreciation in each cost centre from exceeding an amount equal to the estimated future net revenues from proven reserves (after adjusting for estimated future general and administration costs and corporate income taxes, if any) plus the lower of cost and estimated fair value of the Company's undeveloped acreage.

ii) *Other Fixed Assets*

Other fixed assets are recorded at cost and depreciation is provided as follows:

Oil and gas equipment	unit-of-production method based upon proven developed reserves
Furniture and equipment	20 - 30% declining balance basis

iii) *Flow Through Shares*

The Company financed a portion of its exploration and development activities through the issue of flow through common shares. Under the terms of the flow through share agreements, the tax benefits of the related expenditures are renounced to the shareholders. To recognize the renunciation of the foregone tax benefits to the Company, the carrying value of the properties acquired and share capital are reduced by the estimated amount of the tax benefits renounced to shareholders when the expenditures are incurred.

c) *JointVenture*

Substantially all the exploration and development activities related to oil and gas are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

d) *Deferred Abandonment Costs*

A provision is established for estimated future costs of site restoration of oil and gas production interests, including the removal of production facilities at the end of their useful life. Costs are based on management's estimates of the anticipated method and extent of site restoration. The annual charge, determined on the same basis as the depletion and depreciation of the underlying asset, is included in depletion and depreciation. Included in depreciation and depletion expense for the period is $5,431 (1993 — $592).

e) *Deferred Income Taxes*

The Company records income taxes on the tax allocation basis. Deferred income taxes result primarily from claiming exploration and development costs and capital cost allowance for income tax purposes in excess of the related depletion and depreciation recorded in the financial statements.

4. ACQUISITION

On December 6, 1993 the Company acquired 100% of the outstanding common shares of Altarich Energy Corp. The acquisition has been accounted for by the purchase method and these financial statements include the results of operations from the date of acquisition.

The following is a summary of the purchase consideration and the net assets acquired at fair values assigned thereto:

Net assets acquired:	
Cash	$2,328,387
Consideration issued:	
2,503,223 common shares	$2,328,387

During 1994, the Company capitalized $10,747 of costs related to the acquisition. In addition, the Company reduced their carrying value of this investment by reducing oil and gas properties by $561,498 in order to recognize the renunciation of the foregone tax benefits which were renounced to the previous shareholders of Altarich Energy Corp.

5. MARKETABLE SECURITIES

The market value of the marketable securities at December 31, 1994 is $47,580 (1993 — $43,798).

6. FIXED ASSETS

Fixed assets are comprised of the following at December 31:

		1994	
	Cost	Accumulated Depreciation and Depletion	Net Book Value
Oil and gas properties	$3,179,437	$227,355	$2,952,082
Oil and gas equipment	1,077,135	120,621	956,514
Furniture and equipment	92,270	25,223	67,047
	$4,348,842	$373,199	$3,975,643

	1993		
	Cost	Accumulated Depreciation and Depletion	Net Book Value
Oil and gas properties	$1,084,529	$46,408	$1,038,121
Oil and gas equipment	358,646	31,435	327,211
Furniture and equipment	25,266	2,666	22,600
	$1,468,441	$80,509	$1,387,932

The Company capitalized $75,000 of overhead expenses to oil and gas properties in 1994 (1993 — nil).

7. SHARE CAPITAL

a) ***Authorized —***
Unlimited number common voting shares
Unlimited number preferred shares with rights to be determined

b) ***Issued —***
The issued common shares are as follows:

1993	# of Shares	$
Balance, April 1, 1993	6,448,590	470,269
Issued in exchange for Altarich Energy Corp.	2,503,223	2,328,387
Issued for cash	2,525,000	1,384,097
Issued in exchange for services	100,000	50,000
Less tax benefits for expenditures to December 31 to be renounced to shareholders	—	(203,258)
	11,576,813	4,029,495
Share issue costs	—	(416,892)
Balance December 31, 1993	11,576,813	3,612,603

1994	# of Shares	$
Balance January 1, 1994	11,576,813	4,029,495
Issued for cash	1,050,000	930,000
Cancellation of shares	(53,747)	
Less tax benefits foregone on acquisition of Altarich Energy Corp. (note 4)	—	(561,498)
Less tax benefits for expenditures to December 31 to be renounced to shareholders	—	(27,743)
	12,573,066	4,370,254
Share issue costs	—	(440,289)
Balance, December 31, 1994	12,573,066	3,929,965

The number of shares reflects a 4 for 1 share consolidation on June 30, 1994.

As of December 31, 1994, all required expenditures have been renounced to the shareholders.

c) ***Stock Options***

The following stock options are outstanding at December 31, 1994:

Options Outstanding	Exercise Price Per Share	Expiry Date
775,000	$0.50	August 25, 1998
375,000	$0.50	March 1, 1999

d) *Earnings Per Share*

The earnings per share are based on the weighted number of shares outstanding and are as follows:

Year ended December 31, 1994	$0.006
Nine months ended December 31, 1993	$0.024

8. INCOME TAXES

The income tax provision included in the determination of net income is calculated by applying Canadian federal and provincial statutory tax rates to pre-tax earnings, with adjustments as set out below:

	December 31			
	1994		1993	
	$	%	$	%
Combined Canadian federal and provincial income tax	29,000	44.3	102,850	44.3
Resource allowance	(37,280)	(56.9)		
Alberta Royalty Tax Credit	(27,640)	(42.2)	(10,740)	(4.6)
Non-deductible crown royalties	66,050	100.8	49,650	21.3
Benefit of income tax losses in subsidiary company	(16,540)	(25.2)	(7,010)	(3.0)
Share issue costs	(38,730)	(59.1)	(36,940)	(15.9)
Other	6,040	9.3	(10,810)	(1.9)
	(19,100)	(29.0)	87,000	40.2

The balance in resource tax pools at December 31, 1994 is as follows:

Canadian Oil and Gas Property Expenses	$819,881
Canadian Development Expenses	316,854
Canadian Exploration Expenses	576,625

9. RESTATEMENT OF 1993 COMPARATIVE FIGURES

i) *Change in accounting policy*

During the year, the Company changed its accounting policy for flow through shares in order to recognize the renunciation of the foregone tax benefits to the Company. As a result, the 1993 comparative figures have been restated as follows:

Oil and gas properties decreased by	$203,258
Share capital decreased by	$203,258

ii) *Royalties and lease payments*

The 1993 expense for royalties and lease payments has been increased by $58,757. This resulted from certain royalty payments not being allowed for a provincial royalty tax credit.

10. RELATED PARTY TRANSACTION

During the year, the Company paid management fees of $104,000 to a company controlled by an officer and director of the Company.

11. SUBSEQUENT EVENT

The Company received regulatory approval to repurchase up to 5% of its issued and outstanding common shares over a 12 month period commencing February 7, 1995.

CORPORATE INFORMATION

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Butch Schindel
V. E. (Dale) Burstall
Warren Steckley

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J. W. Grant Robertson, President
Butch Schindel, Vice-President

AUDITORS

McRae Gladstone Gillies
Chartered Accountants

LEGAL COUNSEL

Burstall Ward

BANKERS

Hongkong Bank of Canada

ENGINEERS

Martin Petroleum & Associates

TRANSFER AGENT & REGISTRAR

The R-M Trust Company

STOCK EXCHANGE

Alberta Stock Exchange
(Symbol DNG)

Designed & Produced by Don [illegible], Calgary
Printed in Canada by Ronalds Printing

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